

**Financial Statements**

**Montcalm Center  
For Behavioral Health**

**September 30, 2004**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Montcalm Center for Behavioral Health</b>	County <b>Montcalm</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>12/29/04</b>	Date Accountant Report Submitted to State: <b>3/22/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>		City <b>Alma</b>	State <b>MI</b>
Accountant Signature <i>Roslund, Prestage &amp; Company, P.C.</i>		ZIP <b>48801</b>	Date <b>3/22/05</b>

Montcalm Center For Behavioral Health  
Table of Contents  
September 30, 2004

---

**Independent Auditor's Report**

**Management's Discussion and Analysis** I –VII

**Basic Financial Statements**

Government-wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5 - 6
--	-------

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
---	---

Statement of Net Assets – Proprietary Funds	8
---	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
---	---

Statement of Cash Flows – Proprietary Funds	10
---	----

Notes to the Financial Statements	11-27
-----------------------------------	-------

**Required Supplemental Information**

Budgetary Comparison Schedules	28-29
--------------------------------	-------

**Other Supplemental Information**

Individual Fund Statements

Statement of Personnel Expenditures	30
Statement of Operating Expenditures	31

<b>Government Auditing Standards Report</b>	32-33
---	-------



## **INDEPENDENT AUDITOR'S REPORT**

Montcalm Center For Behavioral Health  
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montcalm Center For Behavioral Health, as of and for the year ended September 30, 2004, which collectively comprise Montcalm Center For Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Montcalm Center For Behavioral Health's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montcalm Center For Behavioral Health, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2004 on our consideration of Montcalm Center For Behavioral Health's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on pages 28-29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montcalm Center For Behavioral Health's basic financial statements. The accompanying supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 29, 2004

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

# Montcalm Center for Behavioral Health

## Management's Discussion and Analysis

*For the year ended September 30, 2004*

This section of the Montcalm Center for Behavioral Health (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal year 2004, the major source of Medicaid revenue continued to be the PIHP. In fiscal year 2003 the Michigan Department of Community Health (MDCH) began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. The Authority affiliated with Bay Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

Also, as of October 1, 2002, the beginning of fiscal year 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This Statement established new financial reporting requirements for state and local governmental units.

### OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

**Authority-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position.

**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

---

The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

### **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.



**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

**Summary of Net Assets**

*As of September 30, 2004 and 2003*

*(In \$000s)*

	<u>2004</u>	<u>2003</u>
<b><u>Assets</u></b>		
Current assets	\$ 1,977	\$ 2,411
Restricted assets	585	463
Capital assets	277	424
<b>Total assets</b>	<u>2,839</u>	<u>3,298</u>
<b><u>Liabilities</u></b>		
Current liabilities	854	1,446
Noncurrent liabilities	152	129
<b>Total liabilities</b>	<u>1,006</u>	<u>1,575</u>
<b><u>Net Assets</u></b>		
Investment in capital assets	277	424
Restricted for capital purposes	330	172
Restricted for risk management	103	163
Unrestricted	1,123	964
<b>Total net assets</b>	<u>\$ 1,833</u>	<u>\$ 1,723</u>

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$1,123 thousand, an increase of \$158 thousand or 16%, compared to the prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current liabilities include \$82 thousand of unspent Medicaid funding that is due to the PIHP under the local service area subcontract agreement. Also at year-end, \$92 thousand of state general fund formula funding was unspent. Of this amount \$29 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$63 thousand as deferred revenue to be carried forward to next year. This is a significant change from the previous year where \$812 thousand had been unspent. This change was due to the voluntary reductions made to state general funds received

**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

---

during the fiscal year: \$469 thousand for the redistribution of Medicaid to the PIHP and \$210 thousand for Section 236 transfers to other Community Mental Health Boards.

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$433 thousand have increased by \$98 thousand or 29%.

Included in this category are assets restricted for capital purposes (funded depreciation). These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2004, the Authority fully funded its annual depreciation expense of \$158 thousand.

The remaining assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract maintained directly with the state. Amounts funded to this account in prior years, together with current year interest earnings, exceeded the maximum allowable funding. This excess was removed and used in current operations. At year-end, the balance in this account was \$103 thousand and is funded to 7.5%, as compared to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. In fiscal 2004 depreciation expense on previously existing and newly acquired capital assets was \$158 thousand.

As of year-end, the net book value of capital assets was 27% of the original book value compared to 28% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of the liability for compensated absences that includes vested vacation and sick pay obligations.

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

**Unrestricted net assets** at the end of the year were \$1,123 thousand, an increase of \$159 thousand or 16% for the year. Unrestricted net assets were 40% of total assets, up from 29% from the prior year.

**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

**SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
<b><u>Revenue</u></b>		
Medicaid specialty supports and services	\$ 4,593	\$ 3,743
State general fund priority populations	1,295	1,488
Adult Basic Waiver	222	-
Program service revenue	104	174
Grants and earned contracts	245	177
County appropriation	188	188
Interest income	21	28
Other local income	2	25
<b>Total revenue</b>	<u>6,670</u>	<u>5,823</u>
<b><u>Expense</u></b>		
Personnel expense	2,519	2,349
Operating expense	3,769	3,353
Local funds contributed to State	95	95
Depreciation	158	172
<b>Total expense</b>	<u>6,541</u>	<u>5,969</u>
<b>Excess of revenue over expense</b>	<u>129</u>	<u>(146)</u>
Transfer to compensated absences	(23)	
Transfer to Affiliate		(274)
<b>Change in net assets</b>	<u>\$ 106</u>	<u>\$ (420)</u>

**Excess of revenue over expenses** from activities for the current year was a surplus of \$129 thousand or 1.9% of revenue. This is an increase of \$275 thousand from the prior year deficit of \$146 thousand or 2.5% of prior year revenue.

**Revenue** for the year was \$6.7 million, an increase of \$847 thousand or 14.5% from the prior year.

**Medicaid specialty supports and services revenue** of \$4.6 million represents 69% of total revenue, an increase of 5% from 64% of total revenue in the prior year. It further represents an increase of \$850 thousand over the previous year. As began in fiscal year 2003, the source of Medicaid specialty supports and service revenues transferred from MDCH to a subcontract with the PIHP. This subcontract is on a net cost not to exceed basis. Unspent Medicaid subcontract funds of \$82 thousand are not revenue and are shown as amounts due to the PIHP as discussed above.

**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

---

**State general fund priority population revenue** (formula funding) of 1.3 million represents 19.4% of total revenue and decreased \$193 thousand or 13% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$63 thousand of prior year deferred revenue. Unspent current year funds of \$92 thousand are not included in current revenue. Of this amount \$29 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$63 thousand is shown as deferred revenue available for next year.

**Adult Basic Waiver revenue** (capitation funding) of \$222 thousand represents 3.3% of total revenue. This is a new revenue for fiscal year 2004. Beginning on October 1, 2003 the Department of Community Health initiated a new program to replace the State Medical Program with the Adult Benefits Waiver, authorized under Title XXI of the Social Security Act. The authority receives capitation at the rate of \$53.77 per month for each Montcalm County resident enrolled in the program. Any unused funds at the end of the fiscal year are available in the subsequent fiscal years and treated as local funds. During fiscal year 2004 \$66 thousand of these funds were actually expensed, leaving \$156 thousand available for local funding uses in subsequent fiscal years.

**Program service revenue** of \$104 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1.6% of total revenue and have decreased \$70 thousand or 40% from the prior year. The reduction is primarily from a decrease in the number of children receiving services under the Children's Model Waiver program.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3.7% of total revenue and have increased \$68 thousand or 38% over the prior year.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3% of revenue and have decreased \$30 thousand or 12% from the prior year. The county appropriation was unchanged. The decrease was in interest income and other sources.

**Total expense** of \$6.5 million has increased \$572 thousand or 9.6% compared to the prior year. Personnel expense is 38.5% of total expense and has increased \$170 thousand or 7%. Operating expense is 57.6% of total expense and has increased \$416 thousand or 12%.

## **FUTURE OUTLOOK**

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good.

**Montcalm Center for Behavioral Health**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2004*

---

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$1,124,567	\$2,151,501
Accounts receivable, net	8,627	113,300
Due from other governmental units	681,397	54,607
Prepaid expenses	162,236	96,301
Total current assets	1,976,827	2,415,709
Noncurrent assets		
Cash and cash equivalents - restricted	585,480	458,661
Capital assets - depreciable, net	276,594	423,640
Total noncurrent assets	862,074	882,301
Total assets	2,838,901	3,298,010
<b>Liabilities</b>		
Current liabilities		
Accounts payable	332,132	319,452
Deferred revenue	63,368	108,639
Due to other governmental units	377,908	808,876
Accrued wages and other payroll liabilities	80,705	209,321
Noncurrent liabilities		
Compensated absences	152,192	128,621
Total liabilities	1,006,305	1,574,909
<b>Net Assets</b>		
Invested in capital assets, net of related debt	276,594	423,640
Reserved for risk management	103,232	162,958
Reserved for capital purposes	330,056	171,707
Unrestricted	1,122,714	964,796
Total net assets	\$1,832,596	\$1,723,101

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes In Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>2004</u>	<u>2003</u>
Governmental activities					
Health & Welfare - Mental Health	<u>\$6,565,253</u>	<u>\$4,697,049</u>	<u>\$1,952,005</u>	\$83,801	(\$173,859)
General revenues					
Unrestricted investment earnings				21,144	25,325
Restricted investment earnings				<u>1,073</u>	<u>2,347</u>
Total general revenues and contributions				22,217	27,672
Transfers to affiliates				<u>-</u>	<u>(274,104)</u>
Change in net assets				106,018	(420,291)
Net assets - beginning of year				1,723,101	2,143,392
Prior period adjustment				<u>3,477</u>	<u>-</u>
Net assets - end of year				<u>\$1,832,596</u>	<u>\$1,723,101</u>

The notes to the financial statements are an integral part of this statement.



## **FUND FINANCIAL STATEMENTS**

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$1,124,567	\$2,151,501
Accounts receivable, net	8,627	113,300
Due from other governmental units	681,397	54,607
Prepaid expenses	162,236	96,301
Cash and cash equivalents - restricted	585,480	458,661
Total assets	<u>\$2,562,307</u>	<u>\$2,874,370</u>
<b>Liabilities</b>		
Accounts payable	\$332,132	\$319,452
Deferred revenue	63,368	108,639
Due to other funds	103,232	162,958
Due to other governmental units	377,908	808,876
Accrued wages and other payroll liabilities	80,705	209,321
Total liabilities	<u>957,345</u>	<u>1,609,246</u>
<b>Fund balance</b>		
Reserved for prepaid expenses	162,236	96,301
Reserved for capital purposes	330,056	171,707
Unreserved	1,112,670	997,116
Total fund balances	<u>1,604,962</u>	<u>1,265,124</u>
Total liabilities and fund balances	<u>\$2,562,307</u>	<u>\$2,874,370</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

---

Total fund balance - governmental funds \$1,604,962

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add:	Capital assets	1,016,693
Deduct:	Accumulated depreciation	(740,099)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The assets and liabilities of the internal service fund are included in  
governmental activities in the statement of net assets.

Add:	Net assets of governmental activities accounted for in the internal service fund	103,232
------	---	---------

Some liabilities are not due and payable in the current period and  
therefore are not reported in the funds. Those liabilities consist of:

Deduct:	Compensated absences	<u>(152,192)</u>
---------	----------------------	------------------

Net assets of governmental activities	<u><u>\$1,832,596</u></u>
---------------------------------------	---------------------------

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

REVENUES	General Fund	
	2004	2003
State grants		
State general fund - DCH contract	\$1,295,118	\$1,488,301
Adult Benefit Waiver	221,640	-
MI child	13,702	13,212
MDCH grants	1,583	-
Title XX	1,845	1,845
Total state grants	1,533,888	1,503,358
Federal grants		
Runaway grant	33,640	34,669
Drop in center grant	36,445	-
PAS / ARR grant	124,871	126,849
Total federal grants	194,956	161,518
Contributions - local units		
Local funding	188,053	189,526
Charges for services		
Medicaid - affiliate contract	4,592,835	3,743,274
Medicaid - other	36,386	110,846
Client and third party pay	67,828	63,253
Total charges for services	4,697,049	3,917,373
Interest and rents		
Interest	21,144	25,325
Other revenue		
Sale of assets	-	7,030
Miscellaneous	35,108	16,414
Total other revenue	35,108	23,444
Total revenues	6,670,198	5,820,544

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>EXPENDITURES</b>		
Health & Welfare - Mental Health		
Personnel expenditures	\$2,519,306	\$2,342,144
Operating expenditures	3,864,027	3,447,795
Capital outlay	-	87,908
Total expenditures	<u>6,383,333</u>	<u>5,877,847</u>
Excess of revenues over expenditures	286,865	(57,303)
Other financing sources (uses)		
Operating transfers in (out) - internal service fund	<u>60,799</u>	<u>(364,958)</u>
Excess of revenues and other sources over expenditures and other uses	347,664	(422,261)
Fund balance, beginning of year	1,265,124	1,413,385
Prior period adjustment	<u>(7,826)</u>	<u>274,000</u>
Fund balance, end of year	<u><u>\$1,604,962</u></u>	<u><u>\$1,265,124</u></u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

---

Net change in fund balances - total governmental funds	\$347,664
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital outlay

Deduct: Depreciation expense

(158,349)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: Interest income from governmental internal service fund

1,073

Add: Transfers in to the governmental internal service fund

(60,799)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in accrual for compensated absences

(23,571)

Change in net assets of governmental activities

\$106,018

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2004 AND 2003

		Internal Service Fund	
		2004	2003
<b>Assets</b>			
Due from general fund		<u>\$103,232</u>	<u>\$162,958</u>
<b>Net assets</b>			
Restricted for risk management		<u>\$103,232</u>	<u>\$162,958</u>
<b>Total liabilities and net assets</b>		<u>\$103,232</u>	<u>\$162,958</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
<b>Non-operating revenue</b>		
Interest income	\$1,073	\$2,347
<b>Operating transfers</b>		
Operating transfers in (out) - general fund	(60,799)	364,958
Operating transfers in (out) - affiliates	-	(274,104)
Net income	(59,726)	93,201
Retained earnings, beginning of year	162,958	69,757
Retained earnings, end of year	<u>\$103,232</u>	<u>\$162,958</u>

The notes to the financial statements are an integral part of this statement.



MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Adjustment to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Due from other funds	\$59,726	(\$93,201)
Net cash provided (used) from operating activities	59,726	(93,201)
Cash flows from investing activities		
Non-operating revenue		
Interest income	1,073	2,347
Cash flows from capital and related financing activities		
Operating transfers in (out) - general fund	(60,799)	364,958
Operating transfers in (out) - affiliates	-	(274,104)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Montcalm Center For Behavioral Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority’s activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

### **Reporting Entity**

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Montcalm who meet eligibility and other criteria.

As the community mental health services provider for Montcalm County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority’s reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

## **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

## **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Montcalm Center For Behavioral Health  
Notes To The Financial Statements

---

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Montcalm Center For Behavioral Health  
Notes To The Financial Statements

---

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund account is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

### **Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Bay-Arenac CMH Authority and the State of Michigan.

### **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Montcalm Center For Behavioral Health  
Notes To The Financial Statements

---

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and furnishings	3-7
Computers	2-5
Vehicles	5
Buildings and improvements	10-30
Land	Not Depreciated

#### **Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH. Cash has been restricted for future improvements and/or acquisition of major capital assets.

These restricted assets are held in a separate cash account with local financial institutions.

#### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



### **Deferred Revenue**

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Grants**

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

### **Incurred But Not Reported Claims Liability**

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimates. The Board may not be billed for these until several months after the date of services. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but is not limited to, retroactive consumer eligibility or cost recovery from other third party payors.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, The Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report.

### NOTE 3 – CASH AND INVESTMENTS

At September 30<sup>th</sup> the carrying amount of the Authority's cash and cash equivalents was as follows:

	2004	2003
Petty cash	\$487	\$487
Checking, money market, and savings accounts	493,237	1,342,359
Certificates of deposit	630,843	808,655
Cash restricted for compensated absences	152,192	128,621
Cash restricted for risk management	103,232	158,333
Cash restricted for capital purposes	330,056	171,707
Total	\$1,710,047	\$2,610,162

At year-end, the carrying amount of the Authority's cash deposits was \$1,709,560 and the bank balance was \$1,921,063. Of the bank balance, \$304,756 was covered by federal depository insurance and \$1,616,307 was uninsured and uncollateralized.

#### Restricted Cash

The Authority holds, in a separate bank account, funds equal to or greater than the compensated absences liability. The use of these funds is restricted to payment of compensated absences as they come due.

Cash and cash equivalents have been restricted in the amount of \$103,232 for the expected future risk corridor requirements of the MCSSP contract.

Cash has also been restricted for future improvements and/or acquisition of major capital assets.

### NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due from third party payers, patients, and others.

Montcalm Center For Behavioral Health  
Notes To The Financial Statements

---

**NOTE 5 – DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of September 30<sup>th</sup>, consists of the following:

<b>Due From</b>	<b>2004</b>	<b>2003</b>
State of Michigan - OBRA	\$28,712	\$44,178
State of Michigan - Runaway Grant	1,442	10,429
State of Michigan – Drop In Grant	3,510	-
Bay-Arenac CMH Authority - Medicaid	645,433	-
Other	2,300	-
<b>Total</b>	<b>\$681,397</b>	<b>\$54,607</b>

**NOTE 6 – PREPAID EXPENSES**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

<b>Prepaid Expense</b>	<b>2004</b>	<b>2003</b>
Insurance	\$33,951	\$20,998
Rent	65,000	70,250
Pension	37,226	-
Dues	7,060	-
Other	18,999	5,053
<b>Total</b>	<b>\$162,236</b>	<b>\$96,301</b>

Montcalm Center For Behavioral Health  
Notes To Financial Statements

**NOTE 7 – CAPITAL ASSETS**

Depreciable capital assets activity for the year ended September 30, 2004 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>CAPITAL ASSETS:</b>				
Vehicles	\$144,634	-	-	\$144,634
Equipment & Furniture	390,703	-	-	390,703
Computers	344,940	-	-	344,940
Building Improvements	136,416	-	-	136,416
Sub-total	1,016,693	-	-	1,016,693
<b>ACCUMULATED DEPR:</b>				
Vehicles	(73,590)	(31,864)	-	(105,454)
Equipment & Furniture	(324,753)	(24,550)	-	(349,303)
Computers	(140,374)	(90,292)	-	(230,666)
Building Improvements	(43,033)	(11,643)	-	(54,676)
Sub-total	(581,750)	(158,349)	-	(740,099)
<b>NET CAPITAL ASSETS</b>	<b>\$434,943</b>	<b>(\$158,349)</b>	<b>-</b>	<b>\$276,594</b>

Depreciation expense in the amount of \$158,349 was charged to Health and Welfare – Mental Health Program.

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2004 and 2003 was \$330,056 and \$171,707, respectively.

Depreciation expense was calculated in accordance with accounting principles generally accepted in the United States of America (GAAP), including, as required, depreciation on the restated value of capital assets in existence as of the implementation date of GASB No. 34, over their remaining useful lives. However, based on assertions made in other CMH audits, it is expected that State auditors will assert that depreciation on capital assets purchased prior to October 1, 2002 (pre-existing assets) is not allowable. The assertion in those cases has yet to be fully adjudicated or resolved. The Authority expects to be challenged by the Michigan Department of Community Health and intends to defend its position vigorously. The Authority contends that such treatment as asserted by State auditors is not in accordance with the Michigan Mental Health Code.

Montcalm Center For Behavioral Health  
Notes To Financial Statements

---

To further support and protect its position, the Authority has established and subsequently funded a reserve for capital purposes (also known as funded depreciation) in accordance with the Michigan Mental Health Code. If depreciation expense on pre-existing capital assets is ultimately disallowed, an equivalent amount that was funded to the reserve for capital purposes will revert to unrestricted fund balance.

Portions of these funds will become available for community reinvestment as Medicaid savings, be treated as deferred revenue and made available for the next year as State General Fund carry forward funding, or possibly be lapsed to the State of Michigan, depending on the nature of ultimate resolution. Thus, the potential exposure created by this issue has been covered by funding the reserve for capital purposes.

The beginning balances for the capital assets and accumulated depreciation as shown in the above schedule has been increased by a net amount of \$11,303 due to corrections in the capital assets inventory. This adjustment has been reflected as a prior period adjustment in these statements.

#### **NOTE 8 – DEFERRED REVENUE**

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

<b>Deferred Revenue</b>	<b>2004</b>	<b>2003</b>
General Fund Carryforward	\$63,368	\$108,639
<b>Total</b>	<b>\$63,368</b>	<b>\$108,639</b>

#### **NOTE 9 – DUE TO OTHER GOVERNMENTAL UNITS**

Due to other governmental units as of September 30<sup>th</sup>, consist of the following:

<b>Due To</b>	<b>2004</b>	<b>2003</b>
State of Michigan – Cost Settlement	\$28,433	\$684,732
Inpatient / Residential Facilities	132,412	84,785
State of Michigan – Section 236 Transfer	135,000	-
Access Alliance - Medicaid	81,913	39,359
Other	150	-
<b>Total</b>	<b>\$377,908</b>	<b>\$808,876</b>

Montcalm Center For Behavioral Health  
Notes To Financial Statements

---

**NOTE 10 – LONG-TERM DEBT**

**Compensated Absences**

Authority policy allows employees to accumulate up to one year's allowance of vacation pay and to carry this accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when vacations are actually taken, upon election to receive a cash payment equal to 50% of one year's vacation earned, or upon termination of employment.

Sick pay can be accumulated up to 90 days and can be carried for an indefinite time into the future. Upon death or retirement, sick leave benefits are paid to an employee in the amount of 50% of the number of sick hours accumulated multiplied by their hourly pay rate. However, upon termination of employment, all sick leave benefits are forfeited.

As of September 30, 2004 and 2003, the liability for compensated absences was \$152,192 and \$128,621, respectively. This includes an amount for the related liability for retirement and FICA.

**Operating Leases**

Montcalm Center For Behavioral Health has entered into operating leases for the use of real property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 <sup>th</sup>	Annual Cost
2005 - 2011	\$130,000
2012	65,000

**NOTE 11 – NET ASSETS**

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

A portion of net assets has been reserved to be used for future improvements and/or acquisition of major capital assets.

**NOTE 12 – COMPLIANCE AUDITS**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

**NOTE 13 – FUND BALANCE RESERVES**

In the fund level financial statements a portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

**NOTE 14 – PENSION PLAN**

The Montcalm Center For Behavioral Health Pension Plan (the "Plan") was adopted effective as of September 30, 1998 to provide retirement benefits for eligible employees. The County of Montcalm on behalf of the Authority initially adopted this defined benefit retirement plan and the provisions of this plan are designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended. Each employee is eligible to be a member of this plan if they work 1000 hours or more in a calendar year.

The plan provides for normal retirement at age 60 with 10 years of plan participation. Early retirement is available with a minimum age of 55 and minimum service of 25 years. The normal retirement benefit is a monthly pension payable in an amount equal to 2% of monthly effective compensation in excess of social security covered compensation multiplied by years of service not to exceed 25 years, plus 1% of monthly effective compensation multiplied by years of service greater than 25. The normal retirement benefit is based on the effective compensation during the highest 5 consecutive years in the 10 years immediately prior to retirement. If retirement begins with less than 5 years of service, the benefit is based on the effective compensation during all years of service.

Effective compensation for a plan year is the compensation for the January 1 to December 31 period. Overtime compensation, bonuses, commissions, and any other extraordinary remuneration are counted. Commissions are averaged over one year. Vesting occurs after 5 years of participation. Periodic contributions are made to the trustee of the plan (Macatawa Bank) to cover the pension obligation of the employee's of the Authority.

Additional information about this plan can be requested by writing to: Macatawa Bank, P.O. Box 3119, Holland, Michigan, 49422-3119.

#### **NOTE 15 - FICA ALTERNATIVE /MONEY PURCHASE PLAN**

Effective June 1, 1999, the Authority adopted an alternative social security plan. Employee contributions consisting of 6.2% of wages were equally matched by the Authority. The provisions of the Plan were designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code. Contributions were made to this Plan through October, 2003.

On October 28, 2003 the Authority held an employee referendum on the continuance of the alternative social security plan. By a vote of 28 to 12 the employees voted to return to the Social Security program. At the time of the next payroll, on November 7, 2003, contributions to the Plan ceased and were made instead to Social Security. All remaining funds in the Plan, which were 100% employee vested, were distributed on April 7, 2004 either as a taxable distribution of the funds or as a rolled over balance to other qualified plans.

#### **NOTE 16 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$5,000,000 for liability, \$1,451,959 for buildings and personal property, and \$1,500,000 for vehicle physical damage. The Authority also has approximately \$103,232 in a shared risk arrangement with the Department of Community Health. The contribution made by the Authority to the MMRMA \$27,998 for shared risk for the period July 1, 2003 to June 30, 2004.



### **Managed Care Risk Contract**

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Beginning October 1, 2002, the Medicaid funds for Tuscola, Shiawassee, Huron, Montcalm, Bay and Arenac Counties will be paid to Bay-Arenac Community Mental Health Authority. The contract for these Medicaid funds will be between the MDCH and Bay-Arenac Community Mental Health Authority.

Bay-Arenac Community Mental Health Authority will then contract with Montcalm Center For Behavioral Health for Medicaid funding.

Montcalm Center For Behavioral Health will continue to contract with MDCH for the State General Fund Services.

### **NOTE 17 – CONTINGENT LIABILITIES**

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

### **NOTE 18 – TRANSFERS BETWEEN FUNDS**

The Authority transferred \$60,799 from the Internal Service Fund (risk reserve) to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

Montcalm Center For Behavioral Health  
Notes To Financial Statements

---

**NOTE 19 – PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments shown in the fund level financial statements in this report represent the adjustment to fund balance due to the following:

<b>Adjustment</b>	<b>2004</b>	<b>2003</b>
Removal of compensated absences liability	-	\$121,189
Prior year deferred Medicaid revenue	-	152,811
Adjustments to net capital assets beginning balance	(\$11,303)	-
Other	3,477	-
Total	(\$7,826)	\$274,000

# **REQUIRED SUPPLEMENTAL INFORMATION**

## **BUDGETARY COMPARISON SCHEDULE**

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual And Final Budget
	Original	Final		
<b>REVENUES</b>				
State grants				
State general fund - DCH contract	\$2,254,725	\$1,508,564	\$1,295,118	(\$213,446)
Adult benefit waiver	-	226,000	221,640	(4,360)
MDCH grants	7,000	3,000	1,583	(1,417)
MI child capitation	13,000	13,000	13,702	702
Title XX	1,845	1,845	1,845	-
Total state grants	2,276,570	1,752,409	1,533,888	(218,521)
Federal grants				
Runaway grant	34,704	34,704	33,640	(1,064)
Drop In Center grant	40,909	40,909	36,445	(4,464)
PAS / ARR grant	120,000	120,000	124,871	4,871
Total federal grants	195,613	195,613	194,956	(657)
Contributions - local units				
Local funding	188,053	188,053	188,053	-
Charges for services				
Medicaid - affiliate contract	4,115,006	4,728,137	4,592,835	(135,302)
Medicaid - other	89,000	90,939	36,386	(54,553)
Client and third party pay	68,000	68,000	67,828	(172)
Total charges for services	4,272,006	4,887,076	4,697,049	(190,027)
Interest and rents				
Interest	30,000	30,000	21,144	(8,856)
Other revenue				
Sale of assets	-	-	-	-
Miscellaneous	3,200	3,200	35,108	31,908
Total other revenue	3,200	3,200	35,108	31,908
Total revenues	6,965,442	7,056,351	6,670,198	(386,153)

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDING SEPTEMBER 30, 2004

EXPENDITURES	Budgeted Amounts		Actual	Variances Between Actual And Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Personnel expenditures	\$2,744,477	\$2,700,377	\$2,519,306	\$181,071
Operating expenditures	3,903,303	4,276,756	3,864,027	412,729
Capital outlay	55,000	138,000	-	138,000
Total expenditures	<u>6,702,780</u>	<u>7,115,133</u>	<u>6,383,333</u>	<u>731,800</u>
Excess of revenues over expenditures	262,662	(58,782)	286,865	345,647
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>58,782</u>	<u>60,799</u>	<u>2,017</u>
Excess of revenues and other sources over expenditures and other uses	262,662	-	347,664	347,664
Fund balance, beginning of year	1,265,124	1,265,124	1,265,124	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(7,826)</u>	<u>(7,826)</u>
Fund balance, end of year	<u>\$1,527,786</u>	<u>\$1,265,124</u>	<u>\$1,604,962</u>	<u>\$339,838</u>

The notes to the financial statements are an integral part of this statement.

# **OTHER SUPPLEMENTAL INFORMATION**

## **INDIVIDUAL FUND STATEMENTS**

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

---

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
<b>Personnel expenditures</b>		
Salaries and wages	\$1,966,530	\$1,805,385
Fringe benefits	548,926	533,194
Board per diem	<u>3,850</u>	<u>3,565</u>
 Total personnel expenditures	 <u>\$2,519,306</u>	 <u>\$2,342,144</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
<b>Operating expenditures</b>		
Accounting and auditing	\$14,119	\$13,111
Alliance and affiliation expense	10,492	11,754
Client transportation	72,883	56,746
Clinical services contracts	645,565	293,386
Community hospital inpatient	267,232	228,658
Consultants	167,160	146,694
Day program	143,685	159,156
Dues	11,672	9,103
Equipment maintenance	14,243	18,856
Equipment rental	1,018	1,018
Insurance and bonds	28,042	27,785
Janitorial supplies	2,933	3,598
MDCH state facilities - local	64,491	67,544
MDCH state facilities - state	179,484	261,380
Miscellaneous	27,890	17,964
Non-matchable expense	94,937	95,128
Office repairs	8,370	10,895
Printing and publishing	26,840	32,576
Recruitment	10,160	12,754
Rent	147,114	146,962
Rent payment - residential homes	76,543	78,826
Residential placement	1,245,428	1,218,756
Respite services	164,328	167,873
Small equipment	24,720	44,185
Staff development	31,169	28,536
Staff publications	10,222	21,530
Staff travel	40,700	32,079
Supplies	38,636	40,758
Supported employment - janitorial service	23,392	22,958
Supported employment - job coaching	49,136	42,903
Supported employment - cash match MRS	22,840	22,840
Telephone	45,357	37,138
Temporary office help	6,804	11,422
CMC administration	82,389	-
Utilities	54,156	56,649
Vehicle expenses	9,877	6,274
	<u>\$3,864,027</u>	<u>\$3,447,795</u>
Total operating expenditures		

The notes to the financial statements are an integral part of this statement.





**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Montcalm Center For Behavioral Health  
Stanton, Michigan

We have audited the general purpose financial statements of the Montcalm Center For Behavioral Health as of and for the year ended September 30, 2004, and have issued our report thereon dated December 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Montcalm Center For Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Montcalm Center For Behavioral Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 29, 2004.

This report is intended for the information of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 29, 2004



## MANAGEMENT LETTER

Board of Directors  
Montcalm Center For Behavioral Health  
Stanton, Michigan

In planning and performing our audit of the financial statements for Montcalm Center For Behavioral Health for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 29, 2004 on the financial statements of Montcalm Center for Behavioral Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 29, 2004

Montcalm Center for Behavioral Health  
Management Letter

### **Depreciation Schedule**

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that the Board consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

### **Fraud Risk Assessment**

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud.

To address this risk, we recommend that Montcalm Center for Behavioral Health (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

Montcalm Center for Behavioral Health  
Management Letter

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Montcalm Center for Behavioral Health  
Management Letter

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

Montcalm Center for Behavioral Health  
Management Letter

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

### **Review Payroll Records for Unusual Matters**

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.